



# **Governor Carcieri's Pension Reform Plan**

## **Savings for Rhode Island's taxpayers and municipalities**

For the last two years, Governor Carcieri has warned that Rhode Island is heading for a pension system crisis. His pension reform plan will reduce the burdens that are contributing to this crisis, resulting in a savings to taxpayers and municipalities of more than \$270 million over five years.

### **Rhode Island's pension crisis**

- Retirement costs have skyrocketed.
- Taxpayers are paying more of the costs: Taxpayer contributions for pensions will increase from \$184 million this year to \$278 million next year. By 2010, taxpayers will be paying a total of \$400 million to fund the pension system.
- Rhode Island's pension system is far more generous than other public pension systems.
  - There is no minimum retirement age—employees can collect a pension after 28 years of service or after 10 years of service for those over 60.
  - Retirees receive annual 3 percent cost-of-living adjustment increases, regardless of the rate of inflation.
  - Retirees collect 80 percent of their salary after 35 years of service.
- This year alone, the state is paying out approximately \$180 million more in benefits that we will collect in pension contributions.
- This problem is getting worse: The number of retirees collecting pension benefits from the state pension system continues to grow, while the number of people contributing to the system has remained the same.
- The pension system is underfunded by a total of \$3.1 billion. It is 66 percent funded for state employees and 65 funded for public employees.

### **Governor Carcieri's pension reform plan**

Governor Carcieri's plan does not impact those employees that are vested or who are already collecting a pension. Only newly-hired employees and those with less than 10 years of service will be impacted. There are four elements to Governor Carcieri's pension reform plan:

- **Setting a minimum retirement age.** State employees must be at least 60 years old to collect a pension. State employees and teachers would be eligible for a pension at age 60 with 30 years of service, or otherwise, at age 65.
- **Reducing the accrual benefit rate.** The maximum pension a state employee could collect would be worth 75 percent of final salary after 38 years.
- **Recalculating cost-of-living adjustment.** The federal Consumer Price Index (CPI), would be used to calculate the annual cost-of-living adjustment. Pension benefits would increase annually according to the CPI, or at 3 percent, whichever is lower.
- **Addressing the pension system's unfunded liability.** Any unexpected state surpluses over \$30 million would be devoted to paying down our pension fund obligations.

### **The savings**

- The state would save more than \$28 million in FY 2006.
- Cities and towns would save a total of more than \$20 million in FY 2006.
- A plan to fund the pension system's unfunded liability.